

**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
NICHOLAS COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

The Auditor of Public Accounts has completed the Nicholas County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$23,989 from the beginning of the year, resulting in a cash surplus of \$742,947 as of June 30, 2002.

Debt Obligations:

Capital lease principal agreements totaled \$233,392 as of June 30, 2002. Future principal and interest payments of \$279,489 are needed to meet these obligations.

Report Comments:

- **Reference Number 2002-1:** All County Employees Should Maintain Timesheets
- **Reference Number 2002-2:** The County Should Prepare A Schedule Of Expenditures Of Federal Awards

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1	
NICHOLAS COUNTY OFFICIALS.....	3	
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	6	
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES.....	12	
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS.....	17	
COMBINED STATEMENT OF CASH FLOWS - ALL NON-EXPENDABLE TRUST FUNDS	21	
NOTES TO FINANCIAL STATEMENTS	22	
SUPPORTING SCHEDULES:		
COMBINING BALANCE SHEET - ALL NON-EXPENDABLE TRUST FUNDS.....	31	
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS	35	
COMBINING STATEMENT OF CASH FLOWS - ALL NON-EXPENDABLE TRUST FUNDS.....	39	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	43	
SCHEDULE OF OPERATING REVENUE	47	
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	51	
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		55
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....		59
SCHEDULE OF FINDINGS AND QUESTIONED COSTS		63
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS		67
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS		68
APPENDIX A:		
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM		



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Nicholas County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances - all governmental fund types, the combined statement of revenues, expenses, and changes in retained earnings - all non-expendable trust funds, and the combined statement of cash flows - all non-expendable trust funds for the year then ended. These financial statements are the responsibility of the Nicholas County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Nicholas County Senior Citizens Center - Title III B, C, and Homecare Program. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nicholas County Senior Citizens Center - Title III B, C, and Homecare Program, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Nicholas County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2002 of Nicholas County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 21, 2003 on our consideration of Nicholas County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Nicholas County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- **Reference Number 2002-1:** All County Employees Should Maintain Timesheets
- **Reference Number 2002-2:** The County Should Prepare A Schedule Of Expenditures Of Federal Awards

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 21, 2003

NICHOLAS COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Larry Tinch	County Judge/Executive
Billy Dixon	Magistrate
Daryl Stacy	Magistrate
Avery Thornsburg	Magistrate
Jeff Randolph	Magistrate
Steve Hamilton	Magistrate

Other Elected Officials:

Donald Bromagen	County Attorney
Billy Mac Gaunce	Jailer
Douglas Fryman	County Clerk
Sandye Watkins	Circuit Court Clerk
Charles Ring	Sheriff
Michelle McDonald	Property Valuation Administrator
Roy Gaunce	Coroner

Appointed Personnel:

Wanda Dotson	County Treasurer
Dana Price	Occupational Tax Collector

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

NICHOLAS COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 546,891	\$ 177,854	\$ 34,616
Accounts Receivable - BGADD Title II			
Mutual Funds - Fixed Income			
Mutual Funds - Equity			
Total Assets	<u>\$ 546,891</u>	<u>\$ 177,854</u>	<u>\$ 34,616</u>
<u>Other Resources</u>			
Amounts to Be Provided In Future Years for:			
Capital Lease	<u>\$ 233,392</u>	<u>\$</u>	<u>\$</u>
Total Other Resources	<u>\$ 233,392</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Assets and Other Resources	<u><u>\$ 780,283</u></u>	<u><u>\$ 177,854</u></u>	<u><u>\$ 34,616</u></u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only) Primary Government</u>		<u>Totals (Memorandum Only) Reporting Entity</u>
<u>Trust and Agency</u>		<u>Component Unit</u>	
\$ 156,814	\$ 916,175	\$ 19,546	\$ 935,721
		3,111	3,111
1,872,212	1,872,212		1,872,212
570,794	570,794		570,794
<u>\$ 2,599,820</u>	<u>\$ 3,359,181</u>	<u>\$ 22,657</u>	<u>\$ 3,381,838</u>
<u>\$</u>	<u>233,392</u>	<u>\$</u>	<u>\$ 233,392</u>
<u>\$ 0</u>	<u>\$ 233,392</u>	<u>\$ 0</u>	<u>\$ 233,392</u>
<u>\$ 2,599,820</u>	<u>\$ 3,592,573</u>	<u>\$ 22,657</u>	<u>\$ 3,615,230</u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease (Note 4)	\$ 233,392	\$	\$
Payroll Revolving Account	16,414		
Bonds Matured and Unpresented			5,000
Interest Matured and Unpresented			4,640
Premium on Called Bonds			100
Accounts Payable - Title III			
Accounts Payable - Homecare			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 249,806</u>	<u>\$ 0</u>	<u>\$ 9,740</u>
<u>Equity</u>			
Retained Earnings:			
Restricted	\$	\$	\$
Fund Balances:			
Reserved	6,409	177,854	24,876
Unreserved	524,068		
	<u> </u>	<u> </u>	<u> </u>
Total Equity	<u>\$ 530,477</u>	<u>\$ 177,854</u>	<u>\$ 24,876</u>
Total Liabilities and Equity	<u><u>\$ 780,283</u></u>	<u><u>\$ 177,854</u></u>	<u><u>\$ 34,616</u></u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

<u>Fund Type</u>	<u>Government</u>	<u>Reporting Entity</u>	
<u>Trust and Agency</u>		<u>Component Unit</u>	
\$	\$ 233,392	\$	\$ 233,392
	16,414		16,414
	5,000		5,000
	4,640		4,640
	100		100
		1,397	1,397
		1,397	1,397
<u>\$ 0</u>	<u>\$ 259,546</u>	<u>\$ 2,794</u>	<u>\$ 262,340</u>
\$ 2,599,820	\$ 2,599,820	\$	\$ 2,599,820
	209,139	19,863	229,002
	524,068		524,068
<u>\$ 2,599,820</u>	<u>\$ 3,333,027</u>	<u>\$ 19,863</u>	<u>\$ 3,352,890</u>
<u>\$ 2,599,820</u>	<u>\$ 3,592,573</u>	<u>\$ 22,657</u>	<u>\$ 3,615,230</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

NICHOLAS COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2002

	General Fund Type		
	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 865,758	\$ 728,311	\$ 38,571
Other Financing Sources:			
Transfers In	100,394		137,373
Transfers from Trust Funds	10,298		
Receipts - Nicholas County Senior Citizens Center			
Total Cash Receipts	<u>\$ 976,450</u>	<u>\$ 728,311</u>	<u>\$ 175,944</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 765,785	\$ 697,966	\$ 176,626
Other Financing Uses:			
Transfers Out	176,173	89,711	
Capital Lease:			
Principal	17,775	16,355	
Receipts - Nicholas County Senior Citizens Center			
Total Cash Disbursements	<u>\$ 959,733</u>	<u>\$ 804,032</u>	<u>\$ 176,626</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 16,717	\$ (75,721)	\$ (682)
Cash Balance - July 1, 2001	<u>394,321</u>	<u>168,908</u>	<u>1,546</u>
Cash Balance - June 30, 2002	<u><u>\$ 411,038</u></u>	<u><u>\$ 93,187</u></u>	<u><u>\$ 864</u></u>

NICHOLAS COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Type		Special Revenue Fund Type			
Local Government Economic Assistance Fund	Landfill Fund	Phase I Tobacco Fund	Mathers Educational Fund	Small Business Fund	Panel Masters Fund
\$ 7,767	\$ 46,642	\$ 488,810	\$ 4,559	\$ 134,500	\$ 518,000
	38,800		106,561		
<u>\$ 7,767</u>	<u>\$ 85,442</u>	<u>\$ 488,810</u>	<u>\$ 111,120</u>	<u>\$ 134,500</u>	<u>\$ 518,000</u>
\$ 21,973	\$ 85,207	\$ 439,618	\$ 74,065	\$ 114,769	\$ 518,000
		6,250			
<u>\$ 21,973</u>	<u>\$ 85,207</u>	<u>\$ 445,868</u>	<u>\$ 74,065</u>	<u>\$ 114,769</u>	<u>\$ 518,000</u>
\$ (14,206)	\$ 235	\$ 42,942	\$ 37,055	\$ 19,731	\$
33,185	6,174	50,090	28,036		
<u>\$ 18,979</u>	<u>\$ 6,409</u>	<u>\$ 93,032</u>	<u>\$ 65,091</u>	<u>\$ 19,731</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

	Totals (Memorandum Only)		Totals (Memorandum Only)	
	Debt Service Fund Type	Primary Government	Reporting Entity	
	Voted Hospital Bond Fund		Component Unit	
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,351	\$ 2,835,269		\$ 2,835,269
Other Financing Sources:				
Transfers In		276,567		276,567
Transfers from Trust Funds		116,859		116,859
Receipts - Nicholas County Senior Citizens Center			96,916	96,916
Total Cash Receipts	\$ 2,351	\$ 3,228,695	\$ 96,916	\$ 3,325,611
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$ 2,894,009	\$	\$ 2,894,009
Other Financing Uses:				
Transfers Out	4,433	276,567		276,567
Capital Lease:				
Principal		34,130		34,130
Receipts - Nicholas County Senior Citizens Center			96,916	96,916
Total Cash Disbursements	\$ 4,433	\$ 3,204,706	\$ 96,916	\$ 3,301,622
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (2,082)	\$ 23,989	\$	\$ 23,989
Cash Balance - July 1, 2001	36,698	718,958	19,546	738,504
Cash Balance - June 30, 2002	\$ 34,616	\$ 742,947	\$ 19,546	\$ 762,493

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED
EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

NICHOLAS COUNTY
COMBINED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED
EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

For The Fiscal Year Ended June 30, 2002

Operating Revenues:

Interest	\$ 2,856
Dividends	119,517
Other	<u>4,976</u>
Total Operating Revenues	<u>\$ 127,349</u>

Operating Expenses:

Commissions and Fees	<u>\$ 28,278</u>
Total Operating Expenses	<u>\$ 28,278</u>

Income Before Nonoperating
Revenues

\$ 99,071

Nonoperating Revenues (Expenses):

Transfer To Fiscal Court	\$ (116,859)
Unrealized Gain on Investments	(69,083)
Loss on Sale of Investments	<u>(48,481)</u>

Total Nonoperating Expenses

\$ (234,423)

Net Income

\$ (135,352)

Retained Earnings - July 1, 2001

2,735,172

Retained Earnings - June 30, 2002

\$ 2,599,820

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

COMBINED STATEMENT OF CASH
FLows - ALL NON-EXPENDABLE TRUST FUNDS

NICHOLAS COUNTY
COMBINED STATEMENT OF CASH
FLOWS - ALL NON-EXPENDABLE TRUST FUNDS

For The Fiscal Year Ended June 30, 2002

Cash Flows From Operating Activities:

Commissions and Fees	\$ (28,278)
Interest	2,857
Dividends	119,517
Other Expense	<u>4,975</u>

Net Cash Provided by Operating Activities	<u>\$ 99,071</u>
---	------------------

Cash Flows From Noncapital Financing Activities:

Operating Transfers - To Fiscal Court	<u>\$ (116,859)</u>
---------------------------------------	---------------------

Net Cash Used by Noncapital Financing Activities	<u>\$ (116,859)</u>
--	---------------------

Cash Flows From Investing Activities:

Proceeds From Sale of Investments	\$ 347,834
Cost of Assets Purchased	<u>(362,619)</u>

Net Cash Provided by Investing Activities	<u>\$ (14,785)</u>
---	--------------------

Net Cash Decrease	\$ (32,573)
Cash and Cash Equivalents - July 1, 2001	<u>189,387</u>

Cash and Cash Equivalents - June 30, 2002	<u><u>\$ 156,814</u></u>
---	--------------------------

Reconciliation of Net Income to Net Cash Used
By Operating Activities:

Net Loss	<u>\$ (135,352)</u>
----------	---------------------

Adjustments to Reconcile Net Income to Net Cash

Provided by Operating Activities:

Transfer to Fiscal Court	\$ 116,859
Unrealized Loss on Investment	69,083
Loss on Sale of Investments	<u>48,481</u>

Total Adjustments	<u>\$ 234,423</u>
-------------------	-------------------

Net Cash Provided by Operating Activities	<u><u>\$ 99,071</u></u>
---	-------------------------

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Nicholas County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Nicholas County Senior Citizens Center - Title III B, C, and Homecare Program as part of the reporting entity.

Nicholas County Senior Citizens Center -Title III B, C, and Homecare Program:

Nicholas County Senior Citizens Center - Title III B, C, and Homecare Program cannot be sued in its own name without recourse to the Nicholas County Fiscal Court, who appoints the Senior Citizens Center's Director. The fiscal court is able to impose its will on the Senior Citizens Center. The Senior Citizens Center is financially accountable to the fiscal court. This component unit is audited by other auditors.

Additional - Nicholas County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Nicholas County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Nicholas County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Nicholas County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), and the Landfill Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Nicholas County Special Revenue Fund Type includes the following county funds: Phase I Tobacco Fund, Mathers Educational Fund, Small Business Fund, and the Panel Masters Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Voted Hospital Bond Fund.

4) Fiduciary Fund Type

Fiduciary Fund Type accounts for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a non-expendable trust fund, or an expendable trust fund is used. The terms "non-expendable" or "expendable" refer to whether or not the government is under obligation to maintain trust principal.

Non-expendable trust funds account for revenue expended to carry out the objectives of the trust and for the corpus (principal) of the trust, which must remain intact. The Nicholas County Non-expendable Trust Funds include the following: Mathers Educational Trust Fund and the Knox Hospital Trust Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

Under an accrual basis of accounting, applied within the non-expendable trust fund type, revenues are recognized in the period earned and expenses are recognized in the period incurred in the process of generating revenues. Investments within the non-expendable trust are stated at fair market value. Fair market value is the amount at which an investment could be exchanged in a current transaction between willing parties. If fair market value is greater than or less than the carrying value, it creates an unrealized gain or loss on investments.

D. Legal Compliance - Budget

The Nicholas County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the non-expendable trust funds because the trust agreements do not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. For the purpose of the statement of cash flows, the county considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

NICHOLAS COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 3. Deposits and Investments (Continued)

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Cash Equivalents	\$	\$	\$ 156,814	\$ 156,814	\$ 156,814
Mutual Funds - Fixed Income			1,872,212	1,807,529	1,872,212
Mutual Funds - Equity			570,794	653,095	570,794
Totals	\$ 0	\$ 0	\$ 2,599,820	\$ 2,617,438	\$ 2,599,820

Note 4. Capital Leases

- a) The Nicholas County Fiscal Court entered into a lease agreement for \$291,000, with the Kentucky Association of Counties Leasing Trust Program, for courthouse renovation, on September 24, 1997. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on October 1, 2012. The outstanding principal as of June 30, 2002 was \$223,628. The following indicates scheduled debt service requirements (principal and interest only) for future periods through the end of the lease:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 8,003	\$ 17,786
2004	7,329	18,552
2005	6,625	19,350
2006	5,891	20,183
2007	5,125	21,051
2008-2012	12,987	126,706
Totals	\$ 45,960	\$ 223,628

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Capital Leases (Continued)

- b) The Nicholas County Fiscal Court entered into a lease agreement, for \$87,520, with Kentucky Association of Counties Leasing Trust Program, for the purchase two dump trucks, on January 21, 1998. The lease is renewable by the county on a fiscal year basis, with five renewal periods. The lease calls for a variable interest rate. The principal balance at June 30, 2002 was \$9,764.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 137	\$ 9,764
Totals	<u>\$ 137</u>	<u>\$ 9,764</u>

Total principal balance at June 30, 2002, was \$233,392.

Note 5. Insurance

For the fiscal year ended June 30, 2002, Nicholas County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 6. Flag Maintenance Account

The Nicholas County Fiscal Court established a Flag Maintenance Savings Account in 1996, consisting of contributions from the community. The contributions are to be used to maintain the electric flag on the Nicholas County Courthouse. The balance in this account at June 30, 2002, was \$700.

Note 7. Solid Waste Landfill Closure and Postclosure Costs

Nicholas County Fiscal Court (the County) operated a landfill that began receiving solid waste in September 1970 and continued until December 1991. The County initiated closure operations in April 1992. Closure costs at that time were estimated to be \$72,469 and the County completed the steps necessary to close the landfill in September 1993. The County appears to have met all federal, state, and local laws and regulations with regard to the closure of the landfill. The County is required to file reports with the appropriate regulatory agencies regarding the findings of the groundwater monitoring activities. Postclosure costs are estimated to be \$8,000 per year and are paid from the County's annual appropriations. During fiscal year ending June 30, 2002, the County made no expenditures on postclosure costs. The County Judge/Executive and one magistrate are performing the process of groundwater monitoring in-house. Inflation, deflation, technology, or applicable laws and regulations could affect the estimated postclosure costs.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 8. Non-expendable Trust Funds

The county has two trust funds, the Mathers Educational Trust Fund and the Knox Hospital Trust Fund, which were established by the wills of two residents of Nicholas County. The wills imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The income generated by the principal, less administrative costs, is to be spent for educational expenses of Nicholas County school age children and to promote the general health and welfare of the people of Nicholas County. The county accepts applications for the Mathers Educational Trust Fund and the fiscal court awards the funds based on the applications received. The fiscal court decides how the funds from the Knox Hospital Trust Fund will be disbursed.

COMBINING BALANCE SHEET-
ALL NON-EXPENDABLE TRUST FUNDS

NICHOLAS COUNTY
COMBINING BALANCE SHEET - ALL NON-EXPENDABLE TRUST FUNDS

For the Fiscal Year Ended June 30, 2002

<u>Assets and Other Resources</u>	<u>Totals (Memorandum Only)</u>	<u>Mathers Educational Trust Fund</u>	<u>Knox Hospital Trust Fund</u>
<u>Assets</u>			
Cash Equivalents - Non-Expendable Trust	\$ 156,814	\$ 154,769	\$ 2,045
Mutual Funds - Fixed Income	1,872,212	1,686,545	185,667
Mutual Funds - Equity	<u>570,794</u>	<u>430,562</u>	<u>140,232</u>
Total Assets	<u>\$ 2,599,820</u>	<u>\$ 2,271,876</u>	<u>\$ 327,944</u>
<u>Liabilities and Equity</u>			
<u>Equity</u>			
Retained Earnings:			
Restricted	<u>\$ 2,599,820</u>	<u>\$ 2,271,876</u>	<u>\$ 327,944</u>
Total Equity	<u>\$ 2,599,820</u>	<u>\$ 2,271,876</u>	<u>\$ 327,944</u>
Total Liabilities and Equity	<u>\$ 2,599,820</u>	<u>\$ 2,271,876</u>	<u>\$ 327,944</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

NICHOLAS COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

For the Fiscal Year Ended June 30, 2002

	Totals (Memorandum Only)	Mathers Educational Trust Fund	Knox Hospital Trust Fund
<u>Operating Revenues:</u>			
Interest	\$ 2,856	\$ 2,769	\$ 87
Dividends	119,517	107,687	11,830
Other	4,976	1,394	3,582
	<u> </u>	<u> </u>	<u> </u>
Total Operating Revenues	\$ 127,349	\$ 111,850	\$ 15,499
	<u> </u>	<u> </u>	<u> </u>
<u>Operating Expenses:</u>			
Commissions and Fees	\$ 28,278	\$ 25,633	\$ 2,645
	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	\$ 28,278	\$ 25,633	\$ 2,645
	<u> </u>	<u> </u>	<u> </u>
Income Before Nonoperating Revenues	\$ 99,071	\$ 86,217	\$ 12,854
	<u> </u>	<u> </u>	<u> </u>
Nonoperating Revenues (Expenses):			
Transfer To Fiscal Court	\$ (116,859)	\$ (106,561)	\$ (10,298)
Unrealized Loss on Investments	(69,083)	(40,684)	(28,399)
Gain (Loss) on Sale of Investments	(48,481)	(50,700)	2,219
	<u> </u>	<u> </u>	<u> </u>
Total Nonoperating Expenses	\$ (234,423)	\$ (197,945)	\$ (36,478)
	<u> </u>	<u> </u>	<u> </u>
Net Loss	\$ (135,352)	\$ (111,728)	\$ (23,624)
Retained Earnings - July 1, 2001	2,735,172	2,383,604	351,568
	<u> </u>	<u> </u>	<u> </u>
Retained Earnings - June 30, 2002	\$ 2,599,820	\$ 2,271,876	\$ 327,944
	<u> </u>	<u> </u>	<u> </u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMBINING STATEMENT OF CASH
FLows - ALL NON-EXPENDABLE TRUST FUNDS

NICHOLAS COUNTY
COMBINING STATEMENT OF CASH
FLOWS - ALL NON-EXPENDABLE TRUST FUNDS

For the Fiscal Year Ended June 30, 2002

	Totals (Memorandum Only)	Mathers Educational Trust Fund	Knox Hospital Trust Fund
Cash Flows From Operating Activities:			
Commissions and Fees	\$ (28,278)	\$ (25,634)	\$ (2,644)
Interest	2,857	2,770	87
Dividends	119,517	107,687	11,830
Other Expense	4,975	1,394	3,581
Net Cash Provided by Operating Activities	<u>\$ 99,071</u>	<u>\$ 86,217</u>	<u>\$ 12,854</u>
Cash Flows From Noncapital Financing Activities:			
Operating Transfers - To Fiscal Court	<u>\$ (116,859)</u>	<u>\$ (106,561)</u>	<u>\$ (10,298)</u>
Net Cash Used by Noncapital Financing Activities	<u>\$ (116,859)</u>	<u>\$ (106,561)</u>	<u>\$ (10,298)</u>
Cash Flows From Investing Activities:			
Proceeds From Sale of Investments	\$ 347,834	\$ 329,730	\$ 18,104
Cost of Assets Purchased	<u>(362,619)</u>	<u>(341,038)</u>	<u>(21,581)</u>
Net Cash Used by Investing Activities	<u>\$ (14,785)</u>	<u>\$ (11,308)</u>	<u>\$ (3,477)</u>
Net Cash Decrease	\$ (32,573)	\$ (31,652)	\$ (921)
Cash and Cash Equivalents - July 1, 2001	<u>189,387</u>	<u>186,421</u>	<u>2,966</u>
Cash and Cash Equivalents - June 30, 2002	<u><u>\$ 156,814</u></u>	<u><u>\$ 154,769</u></u>	<u><u>\$ 2,045</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

NICHOLAS COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 720,134	\$ 865,758	\$ 145,624
Road and Bridge Fund	637,461	728,311	90,850
Jail Fund	186,816	38,571	(148,245)
Local Government Economic Assistance Fund	24,500	7,767	(16,733)
Landfill Fund	90,313	46,642	(43,671)
<u>Special Revenue Fund Type</u>			
Phase I Tobacco Fund	533,440	488,810	(44,630)
Mathers Educational Fund	83,000	4,559	(78,441)
Small Business Fund	114,769	134,500	19,731
Panel Masters Fund	800,000	518,000	(282,000)
<u>Debt Service Fund Type</u>			
Voted Hospital Bond Fund	<u>1,800</u>	<u>2,351</u>	<u>551</u>
Totals	<u>\$ 3,192,233</u>	<u>\$ 2,835,269</u>	<u>\$ (356,964)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,192,233
Add: Budgeted Prior Year Surplus			424,112
Less: Other Financing Uses			<u>(34,130)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u><u>\$ 3,582,215</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE

NICHOLAS COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Revenue Categories</u>	<u>Totals (Memorandum Only)</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Debt Service Fund Type</u>
Taxes	\$ 553,231	\$ 553,115	\$	\$ 116
Excess Fees	4,974	4,974		
Licenses and Permits	3,528	3,528		
Intergovernmental Revenues	2,132,637	996,670	1,135,940	27
Charges for Services	57,007	57,007		
Miscellaneous Revenues	28,313	27,788		525
Interest Earned	55,579	43,967	9,929	1,683
Total Operating Revenue	<u>\$ 2,835,269</u>	<u>\$ 1,687,049</u>	<u>\$ 1,145,869</u>	<u>\$ 2,351</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

NICHOLAS COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 316,025	\$ 289,987	\$ 26,038
Protection to Persons and Property	253,308	245,561	7,747
General Health and Sanitation	285,593	280,251	5,342
Social Services	21,000	18,589	2,411
Recreation and Culture	52,000	52,000	
Roads	598,959	510,953	88,006
Debt Service	58,870	10,762	48,108
Capital Projects	86,790	86,710	80
Administration	321,261	252,744	68,517
Total Operating Budget - General Fund Type	\$ 1,993,806	\$ 1,747,557	\$ 246,249
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease	34,130	34,130	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 2,027,936</u>	<u>\$ 1,781,687</u>	<u>\$ 246,249</u>

NICHOLAS COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 518,000	\$ 518,000	\$
Social Services	110,350	73,485	36,865
Capital Projects	114,769	114,769	
Administration	816,090	440,198	375,892
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 1,559,209</u>	<u>\$ 1,146,452</u>	<u>\$ 412,757</u>

DEBT SERVICE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	\$ 5,000	\$	\$ 5,000
Administration	24,200		24,200
TOTAL BUDGET - DEBT SERVICE FUND TYPE	<u>\$ 29,200</u>	<u>\$ 0</u>	<u>\$ 29,200</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Members of the Nicholas County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Nicholas County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Nicholas County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2002-1:** All County Employees Should Maintain Timesheets

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nicholas County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 21, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Members of the Nicholas County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Nicholas County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Nicholas County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Nicholas County's management. Our responsibility is to express an opinion on Nicholas County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nicholas County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Nicholas County's compliance with those requirements.

In our opinion, Nicholas County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2002-2:** The County Should Prepare A Schedule Of Expenditures Of Federal Awards



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Nicholas County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Nicholas County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 21, 2003

FINDINGS AND QUESTIONED COSTS

NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Nicholas County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Nicholas County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Nicholas County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Nicholas County are reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant Program (CFDA #14.228)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Nicholas County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

Reference Number 2002-1

All County Employees Should Maintain Timesheets

Tests of payroll conducted during the audit revealed that not all county employees were maintaining timesheets. KRS 337.320(1) states, in part, that "all employers shall keep a record of: a) the amount paid each pay period to each employee; b) the hours worked each day and each week by each employee; and c) such other information as the secretary requires." We recommend that all county employees maintain timesheets as required by KRS 337.320(1).

County Judge/Executive Larry Tincher's Response:

All county employees will maintain timesheets.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

All County Employees Should Maintain Timesheets - This comment has not been corrected and is included in the current year audit.

NICHOLAS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

Reference Number 2002-2

The County Should Prepare A Schedule Of Expenditures Of Federal Awards

The county did not prepare a Schedule of Expenditures of Federal Awards for inclusion with the county's annual financial statement. OMB Circular A-133 requires the preparation of a Schedule of Expenditures of Federal Awards when the county's expenditure of federal awards exceeds \$300,000. We recommend the county prepare a Schedule of Expenditures of Federal Awards and include this schedule with its annual financial statement as required by OMB Circular A-133.

County Judge/Executive Larry Tincher's Response:

Will comply.

	Questioned Costs
Total	\$ <u>0</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NICHOLAS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Small Business Administration (CFDA #59.000)	N/A	\$ 114,769
Passed-Through State Department for Local Government:		
Community Development Block Grants/State's Program- (CFDA #14.228)	00-024	<u>518,000</u>
Total U.S. Department of Housing and Urban Development		\$ 632,769
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	N/A	<u>\$ 2,857</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 635,626</u></u>

NICHOLAS COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for the Community Development Black Grant/Small Cities Program (Panel Masters of Kentucky, Inc. Project) include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-through Grant Amount</u>
Nicholas County Industrial Development Authority	00-024	\$500,000

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

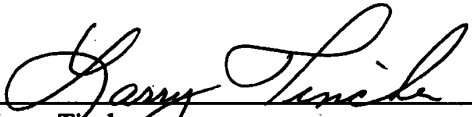
NICHOLAS COUNTY FISCAL COURT


For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
NICHOLAS COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Nicholas County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Larry Tinscher
County Judge/Executive


Wanda Dotson
County Treasurer

